REPORT OF EXAMINATION
OF THE

WORKMEN'S AUTO INSURANCE COMPANY

AS OF
DECEMBER 31, 2004

Participating State
and Zone:

California
Filed August 26, 2005

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Los Angeles, California
June 30, 2005

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable John Morrison
Secretary, Zone IV-Western
Commissioner of Insurance and Securities
Montana Department of Insurance
Helena, Montana

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman and Commissioners:

Pursuant to your instructions, an examination was made of the

WORKMEN'S AUTO INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 714 West Olympic Boulevard, Los Angeles, California 90015.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 2004. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2004, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; and sales and advertising.

SUMMARY OF SIGNIFICANT FINDINGS

Although no examination adjustments were made, other significant findings were noted during this examination including: (1) a prior-period accounting adjustment, which reduced the Company's surplus in 2004 by $13.2 million; (2) a permitted accounting practice that allowed the Company to report a $5.9 million note receivable from its parent at year-end 2004; (3) an approval to replace the $5.9 million note receivable with an investment in an affiliate for the same amount; (4) $15.3 million in underwriting losses and $9.1 million in net losses for the five-year period covered by the examination; (5) the replacement of most of the senior management of the Company along with the appointing of a new independent auditor and actuary and; (6) a decrease in the Risk-Based Capital ratio from 421% in 2003 to 219% in 2004.

A detailed discussion of items (1) through (5) is included in the "Reinsurance", "Comments on Financial Statement Items – Notes (1) and (2)", "Loss Experience" and "Management and Control" sections of this Report of Examination. With regard to item (6), the ratio of the Company's total adjusted capital to its authorized control level risk-based capital, as computed by using the National Association of Insurance Commissioners' (NAIC) Risk-Based Capital (RBC) System formula, is 219%. Under the NAIC RBC System, a ratio of 200% requires an action level under which the Company must prepare a report to the California Insurance Commissioner outlining the corrective actions it intends to take. Although the Company's RBC ratio is not currently at the 200% level, it has decreased significantly in 2004 and is nearing the regulatory action level.

Due to poor results from operations and the significant reduction in the RBC level, the Company prepared a comprehensive report to the California Department of Insurance (CDI) outlining corrective actions it has and/or intends to take to, among other things, increase surplus and reverse the continued operating losses. Based on transactions approved by the CDI, the following actions were taken:

(1) The Company's ultimate parent contributed $2 million in cash to the Company in December 2004.

(2) The Company obtained a permitted accounting practice from the CDI in February 2005 to book a note receivable from its parent in the amount of $5.9 million as of year-end 2004, which was replaced by an investment in a subsidiary in the same amount in February 2005 prior to the filing of the 2004 Annual Statement.

In addition to the above, the Company implemented the following to improve its underwriting results:

- Strengthened its underwriting criterion by providing a high quality stable market for independent producers, focusing on the highly specialized product function of non-standard low limits personal lines automobile liability and physical damage coverage;

- Continued the expansion in the homeowners market and other product opportunities;

- Included easy to use technology for quoting and placing business, attractive low down-payment options for insureds and improved claims handling services;

- Managed on-going relationships through the use of Territory Managers located in all regions with on-site visitation requirements that tie to agency production volumes and loss ratio accomplishments; and

- Implemented annual rate review committees, which include representative of claims, underwriting, actuarial, sales/marketing, operations and finance.

As a result of the above actions, the Company's surplus increased by $7.9 million subsequent to the discovery and recording of the $13.2 million prior-period accounting error in late 2004.

COMPANY HISTORY

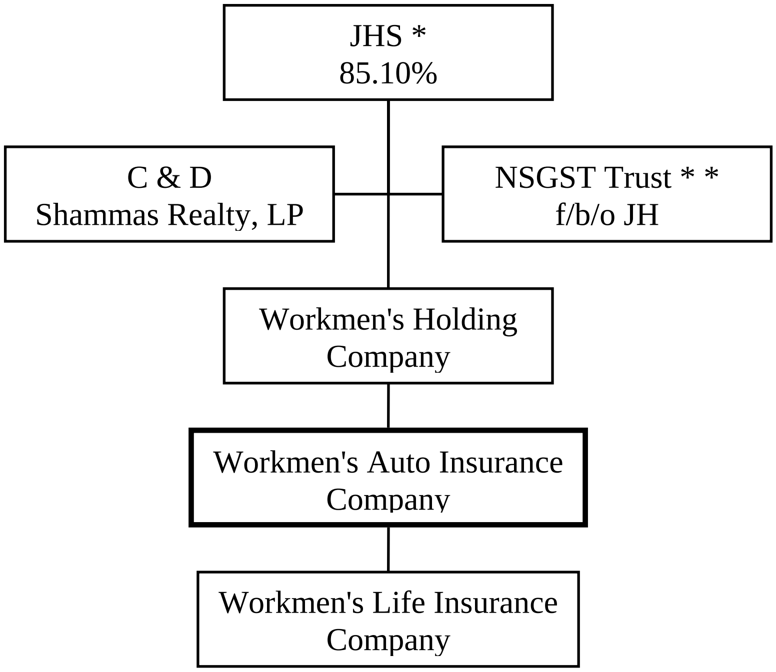
The Company was incorporated under the laws of the State of California on August 1, 1949 and commenced business on December 10, 1949. The paid-in capital of $2.6 million is comprised of 2.6 million shares of $1 par value common stock. All of the issued and outstanding common stock is owned by Workmen's Holding Company (WHC).

On June 27, 2003, Mr. Nickolas N. Shammas, the ultimate controlling person at the time, assigned and transferred all of the issued and outstanding common stock of WHC, which consisted of 1,000 shares, to Nickolas N. Shammas and Jeanette H. Shammas, Trustees of the Shammas Living Trust. Following the death of Mr. Nickolas N. Shammas, Jeanette H. Shammas became the ultimate controlling person for WHC along with its subsidiaries. On August 15, 2003, the 1,000 shares of common stock of WHC was assigned and transferred to the Jeanette H. Shammas Living Trust with 100% ownership resting with Jeanette H. Shammas.

As of December 31, 2004, the Company reported $2.6 million in common capital stock, $17,909,316 in gross paid-in and contributed surplus, and $(4,192,040) in unassigned funds.

MANAGEMENT AND CONTROL

The following organizational chart depicts the Company's relationship within the holding company system as of December 31, 2004:



*   Jeanette H. Shammas Living Trust
** Nickolas N. Shammas GST Trust for the benefit of Julia Holter

Management of the Company is vested in a six-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2004 follows:

Directors

Name and Residence	Principal Business Affiliation
Jeanette H. Shammas Laguna Beach, California	Chairperson of the Board Workmen's Auto Insurance Company
Carole J. Shammas Los Angeles, California	Co-Chairperson of the Board Workmen's Auto Insurance Company
Diane S. Shammas Laguna Beach, California	Property Manager C & D Shammas Realty, LP

Directors (cont.)

Name and Residence	Principal Business Affiliation
Darryl O. Holter Los Angeles, California	Chief Administrative Officer Shammas Enterprises
Nicholas J. Lannutti Calabasas, California	President and Chief Executive Officer Workmen's Auto Insurance Company
Don E. Franzen Topanga, California	Attorney at Law Funsten & Franzen

Principal Officers

Name	Title
Jeanette H. Shammas	Chairperson of the Board
Carole J. Shammas	Co-Chairperson of the Board
Nicholas J. Lannutti	President and Chief Executive Officer
Denise M. Tyson	Chief Financial Officer
Rickard F. Schutt	Chief Operating Officer
George A. Nevitt, Jr.	Chief Marketing Officer
Theodore W. Budlong	Vice President
Russell B. Porter	Vice President
Harvey Lightstone	Vice President
Christine R. Tillett	Vice President
John H. Mejia	Vice President
John P. Crispi	Vice President

Changes in Management

In 2004, the board of directors engaged the Company's previous auditors to review the salary structure of each officer, as well as sample various expense reports compared to the Company's expense guidelines. The results of this review lead to the decision of the board to terminate the President of the Company, for cause, and hire a new President. In addition, the Chief Financial Officer, its independent auditors and appointed actuary were also replaced. During 2004, the position of Chief Operating Officer and two director positions were created.

Management Agreements

Inter-Company Service and Management Agreement: In May of 1993 the Company and its subsidiary, Workmen's Life Insurance Company (WLIC), entered into an Inter-Company Service and Management Agreement (Agreement). Under the terms of the Agreement, the Company maintains all books of accounts, such as cash receipts and cash disbursements ledgers, the general journal, the general ledger, and any other books of original entry necessary for accumulation, preparation and reporting of financial data. The Company is responsible for all administrative and investments functions for WLIC.

WLIC pays the Company a fixed monthly administrative fee of $3,000 per month effective June 1, 1993. The management fee is subject to change provided the change is agreed to by and between the board of directors of both Companies. WLIC paid the Company $36,000 each year for the period covered by this examination.

Federal Income Tax Agreement: The Company is also a party to a Federal Income Tax Agreement with its subsidiary WLIC. This agreement was entered into on January 4,1993. Under the terms of this agreement, the companies file a consolidated federal income tax return. The consolidated federal income tax liability is allocated between the two companies in the ratio that each companies separate tax return liability bears to the total consolidated federal tax liability.

CORPORATE RECORDS

California Insurance Code (CIC) Section 735 states that the Company must inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the commissioner. The board must also enter that fact in the board minutes. A review of the board minutes disclosed that, while the previous officially filed report as of December 31, 2003 was presented to the board, the first formally prepared draft by the examiners of that report was not submitted to the board. It is recommended that the Company implement procedures to ensure future compliance with CIC Section 735.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2004, the Company was licensed to transact property and casualty insurance in California and the following twenty-two states: Arizona, Arkansas, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, Nevada, New Mexico, North Carolina, Oklahoma, Oregon, South Carolina, Utah, Washington and Wisconsin.

In 2004, the Company wrote $27 million of direct premiums in California, which represented 35% of the total premium volume. The Company specializes in the underwriting of non-standard private passenger automobile insurance. Business is produced by approximately 1,900 independent agents. Policies are issued on a direct basis at surcharged rates with terms of three, six and twelve months. The majority of the Company's policies are written at basic limits that satisfy the various states' financial responsibility requirements. The Company maintains a claims office in Maitland, Florida.

LOSS EXPERIENCE

The following is a summary of the Company's loss experience for the last five years as reported by the Company:

	Year/Amounts (000 Omitted)				
Description	**2000**	**2001**	**2002**	**2003**	**2004**
Net Premiums Earned	$ 34,136	$ 69,582	$ 57,199	$ 45,465	$ 61,184
Net Losses and Loss Expenses Incurred	27,631	60,801	42,608	33,580	40,179
Net Other Underwriting Expense Incurred	12,087	13,662	14,300	16,110	21,952

Description	**Year/Amounts (000 Omitted)**

	2000	2001	2002	2003	2004
Net Gain (Loss) from Underwriting	$ (5,582)	$ (4,881)	$ 291	$ (4,225)	$ (947)
Net Investment and Other Income	1,722	1,124	(16)	1,472	1,214
Net Income (Loss)	$ (3,860)	$ (3,757)	$ 275	$ (2,753)	$ 267

As reflected above, the Company reported underwriting losses for four of the past five years and net losses for three of the past five years. In total, over the last five years, the Company reported underwriting losses of $15.3 million and net losses of $9.1 million. The Company's surplus has decreased 18.9% over the past four years from $20.1 million to $16.3 million. The surplus decrease for the four-year period included the $13.2 million reduction in 2004 as a result of accounting errors in recording funds withheld under its reinsurance agreement as noted elsewhere in this examination report, which was partially offset by $7.9 million in capital contributions.

REINSURANCE

Assumed

The Company has no reinsurance assumed.

Ceded

The Company's reinsurance treaty program provides protection for private passenger automobile, auto physical damage and homeowners lines of business. The treaty program utilizes a combination of quota-share, excess of loss reinsurance and catastrophe coverage. The following is a summary of the Company's principal reinsurance agreements in-force and in run-off as of December 31, 2004:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Private Passenger Automobile			
Casualty			
35% Quota-Share Reinsurance Contract	Swiss Reinsurance America Corporation	65%	35%
1st Casualty Excess of Loss	Various Reinsurers	$75,000	$325,000
2nd Casualty Excess of Loss	Various Reinsurers	$400,000	$600,000
2nd Casualty Excess of Loss	Various Reinsurers	$1million	$1.5 million
Property			
35% Quota-Share Reinsurance Contract	Swiss Reinsurance America Corporation	65%	35%
1st Property Excess of Loss	Various Reinsurers	$100,000	$400,000
Homeowners			
First Excess of Loss	Various Reinsurers	$500,000	$500,000
Catastrophe (Automobile & Homeowners)			
First Catastrophe Excess of Loss - Property	Various Reinsurers	$500,000	95% of $500,000
Second Catastrophe Excess of Loss - Property	Various Reinsurers	$1 million	95% of $500,000
Third Catastrophe Excess of Loss - Property	Various Reinsurers	$1.5 million	95% of $1 million

At the beginning of 2004 the Company had two quota-share agreements in place, one with PMA Capital Insurance Company (PMA) covering April 2001 through June 2003 and another with Converium Reinsurance (North America) Inc. (Converium) beginning in July 2003.

As a result of a review of the PMA quota-share agreement by management in 2004, it was determined that the funds withheld liability account relating to this treaty was understated by $13.2 million. The understatement related to miscalculations in virtually all of the reinsurance accounting for the treaty, including the failure of the Company to accrue for interest due on the funds withheld in the amount of $9.6 million. The correction of this error was treated by the Company as a prior-period adjustment to surplus and was reported as a direct change in policyholders' surplus in accordance with Statements of Statutory Accounting Principles (SSAP) No. 3 - Accounting Changes and Corrections of Errors.

In November 2004, the Company commuted this contract with PMA and received $3.5 million in cash to cover all known and unknown outstanding liabilities. As a result, the statutory financial statements at December 31, 2004 have no amount recorded for funds held under reinsurance agreements for the PMA contract.

In December 2004, the Company replaced the PMA and Converium agreements with a treaty with Swiss Reinsurance America Corporation (Swiss Re). Under the terms of this treaty, effective December 1, 2004, the Company cedes 35% to Swiss Re and retains the remaining 65%. This treaty is placed through Towers Perrin Reinsurance Intermediary.

In March 25, 2005 the Company filed a lawsuit against its previous reinsurance intermediary, Guy Carpenter. The Company is claiming $25 million in actual damages with potential punitive damages based upon Guy Carpenters' failure to perform their fiduciary duties as a reinsurance intermediary.

ACCOUNTS AND RECORDS

Information System Controls

During the course of the examination, a review was made of the Company's general controls over its information systems. As a result of the review, weaknesses were noted in areas such as information security, segregation of duties, operational controls, desktop standards, disaster recovery and business continuity planning. The weaknesses noted were presented to the Company along with recommendations to strengthen its controls. The Company should evaluate the recommendations and make appropriate changes to strengthen its information system controls.

2004 Annual Statement Amendment

On May 31, 2005, the Company filed an amended 2004 Annual Statement to report the tax effect of prior period accounting errors as deferred and not as a current income tax. While surplus was not affected, the Company's 2004 net income was reduced from $4.8 million to $267 thousand. In addition, the aggregate write-ins for losses in surplus decreased from a negative $13.6 million to a negative $9 million at year-end 2004. The financial statements included in this Report of Examination incorporate these amendments.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2004

Underwriting and Investment Exhibit for the Year Ended December 31, 2004

Reconciliation of Surplus as Regards Policyholders
from December 31, 2000 through December 31, 2004

Statement of Financial Condition
as of December 31, 2004

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 34,401,005	$	$ 34,401,005	
Stocks:				
Common stocks	2,355,483		2,355,483	(1)
Cash and short-term investments	10,824,086		10,824,086	
Receivable for securities	300,000		300,000	
Investment income due and accrued	520,428		520,428	
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	2,047,386	63,663	1,983,723	
Premiums, agents' balances and installments booked but deferred and not yet due	8,047,134		8,047,134	
Reinsurance: Amounts recoverable from reinsurers	837,049		837,049	
Net deferred tax asset	8,930,162	8,225,738	704,424	
Guaranty funds receivable or on deposit	0		0	
Electronic data processing equipment	950,094	738,766	211,328	
Furniture and equipment	332,197	332,197	0	
Receivable from parent, subsidiaries and affiliates	5,982,558		5,982,558	(2)
Aggregate write-ins for other than invested assets	138,649	112,756	25,893	
Total assets	$ 75,666,231	$ 9,473,120	$ 66,193,111	

Liabilities, Surplus and Other Funds			Notes
Losses and loss adjustment expenses		$ 30,041,656	(3)
Commissions payable, contingent commissions		578,341	
Other expenses		685,711	
Taxes, licenses and fees		18,947	
Unearned premiums		11,272,946	
Advance premium		1,180,112	
Ceded reinsurance premiums payable		5,567,930	
Remittances and items not allocated		4,584	
Provision for reinsurance		125,608	
Aggregate write-ins for liabilities		400,000	
Total liabilities		49,875,835	
Common capital stock	$ 2,600,000		
Gross paid-in and contributed surplus	17,909,316		
Unassigned funds (surplus)	(4,192,040)		
Surplus as regards policyholders		16,317,276	
Total liabilities, surplus and other funds		$ 66,193,111	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2004

Statement of Income

Underwriting Income		
Premiums earned		$ 61,184,412
Deductions:		
Losses incurred	$ 32,397,307	
Loss expense incurred	7,781,981	
Other underwriting expenses incurred	21,951,907	
Total underwriting deductions		62,131,195
Net underwriting loss		(946,783)
Investment Income		
Net investment income earned	$ 1,962,940	
Net realized capital losses	(10,541)	
Net investment gain		1,952,399
Other Income		
Net loss from agents' balances charged off	$ (738,383)	
Total other income		(738,383)
Net income before federal income taxes		267,233
Federal income taxes incurred		(0)
Net income		$ 267,233

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2003		$ 23,746,003
Net income	$ 267,233	
Change in net unrealized capital gains	33,519	
Change in net deferred income tax	(52,098)	
Change in nonadmitted assets	(6,459,855)	
Change in provision for reinsurance	(121,945)	
Surplus adjustments: Paid-in	7,909,316	
Aggregate write-ins for losses in surplus	(9,004,897)	
Change in surplus as regards policyholders		(7,428,727)
Surplus as regards policyholders, December 31, 2004		$ 16,317,276

Reconciliation of Surplus as Regards Policyholders
from December 31, 2000 through December 31, 2004

Surplus as regards policyholders, December 31, 2000, per Examination			$ 17,531,918
	Gain in Surplus	Loss in Surplus	
Net loss	$	$ 3,368,063	
Net unrealized capital losses		9,080	
Change in net deferred income tax	3,170,264		
Change in nonadmitted assets		7,618,417	
Change in provision for reinsurance		124,909	
Cumulative effect of changes in accounting principles	1,006,768		
Surplus adjustments: Paid-in	17,909,316		
Aggregate write-ins for losses in surplus		12,180,521	
Totals	$ 22,086,348	$ 23,300,990	
Net decrease in surplus as regards policyholders			(1,214,642)
Surplus as regards policyholders, December 31, 2004, per Examination			$ 16,317,276

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Common Stocks

The Company owns all of the outstanding shares of Workmen's Life Insurance Company (WLIC) and carried its common stock investment in WLIC as of year-end 2004 at $2.4 million using the statutory equity method. After the contribution of the 31% ownership ($5.9 million) of the Petroleum Building LLC (PB LLC) as discussed in Note (2) below, the Company's affiliated investments (common stock holdings and ownership interest in the PB LLC) will represent 51% of the Company's reported surplus.

(2) Receivable from Parent, Subsidiaries and Affiliates

On February 23, 2005 the Company received a permitted accounting practice from the California Department of Insurance (CDI) to record a note receivable from its parent in the amount of $5,909,316 as of December 31, 2004 as an admitted asset. The permitted practice was required because the note receivable was not satisfied by a cash receipt or readily marketable securities as required by SSAP No. 72 - Surplus and Quasi-Reorganizations. SSAP No. 72, Paragraph 8 requires that: "Notes or other receivables received as additional capital contributions satisfied by receipt of cash or readily marketable securities prior to the filing of the statutory financial statement shall be treated as a Type I subsequent event in accordance with SSAP No. 9 and, as such, shall be considered an admitted asset based on the evidence of collection and approval of the domiciliary commissioner."

The permitted accounting practice was conditioned upon the effective transfer of a 31% ownership in the Petroleum Building LLC (PB LLC) to the Company from the Jeanette H. Shammas Living Trust prior to the Annual Statement filing date of March 1, 2005. PB LLC and C&D Shammas Realty jointly own the Company's home office building. The admitted value of the 31% ownership interest, as evidenced by the fair value of PB LLC (substantiated by an appraisal report on the home office building) and in accordance with the limitations of California Insurance Code (CIC) Section 1215.1(b)(1), is $5,909,316.

In February 2005 the requirement of the permitted accounting practice was satisfied and the note was replaced by the non-cash contribution of the 31% ownership interest in PB LLC. The non-cash surplus contribution was approved by the CDI in accordance with CIC Sections 1215.5 and 1215.1(b)(1).

(3) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the CDI, the Company's loss and loss adjustment expense reserves as of December 31, 2004 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Corporate Records (Page 7): It is recommended that the Company implement procedures in its board meetings to ensure compliance with California Insurance Code (CIC) Section 735.

Accounts and Records - Information System Controls (Page 11): It is recommended that the Company review its information systems and make appropriate changes to strengthen internal controls.

Previous Report of Examination

Corporate Records (Page 5): It was recommended that the Company implement procedures in its board meetings to ensure compliance with CIC Section 735. A review of the board minutes discloses that, while the officially filed report was presented to the board, the first formally prepared draft by the examiners was not. As a result, the Company was not in compliance with the CIC Section 735.

Accounts and Records (Page 9): It was recommended that the Company update and test its disaster recovery Plan. The Company has complied with this recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Richard M. Stone, CFE
Examiner-In-Charge
Senior Insurance Examiner (Supervisor)
Department of Insurance
State of California